Transportation Cyclical

Focus on cost management as demand growth slows

This report does not constitute a rating action.

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What do we expect over the next 12 months?

Asia-Pacific airlines turn their focus to cost management as air traffic growth decelerates.

Freight rates correction continues, although Red Sea disruptions provide some temporary respite.

Push towards decarbonization will drive costs higher.

What are the key risks around the baseline?

Slowing economy, geopolitical shocks. Slower growth and geopolitical escalations could derail the recovery in aviation and weigh on global trade. While prolonged Red Sea disruptions could ease shipping supply-demand imbalances, it may increase demand for air freight, and stoke inflation.

Elevated interest rates and costs. Persistent high rates, labor cost inflation, and volatile oil prices pose risks to earnings recovery, debt reduction and interest serviceability. These could gradually moderate the improvement in airlines' credit metrics. Lower-rated entities could face elevated liquidity and refinancing risks. Decarbonization targets further add to costs.

Supply-side constraints linger for aviation, ease for freight. Delayed aircraft deliveries, maintenance backlogs, engine problems and staff shortages could impede airlines' path to full capacity, and aviation growth prospects generally. But a surge in new-build ship deliveries will lead to a freight correction.

What do they mean for the sector?

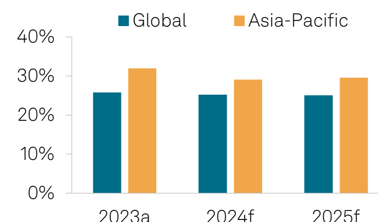
Airlines need to manage costs more tightly. Passenger traffic growth, load factors and yields will moderate as the post-pandemic recovery plateaus, amid intensifying competition. Airlines' ability to maintain their competitive advantage and implement cost savings will be crucial to preserving profit margins.

Capacity management and cash buffers are key for freight operators. Container liners could continue offloading tonnage and carrying out blank/slower sailings to reduce capacity. Freight operators will rely on strong cash flows built up in 2021/2022 to counter disruptions in the Red Sea and to weather weaker margins. They will also remain nimble in their supply-chain logistics strategies.

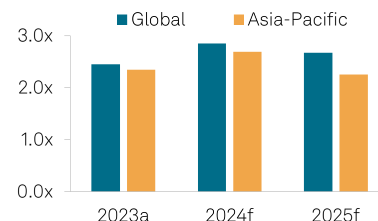
Renewed focus on growth and green initiatives may mean higher capital expenditure. Entities could invest in more fuel-efficient fleets after spending reductions during the pandemic, and to meet growth aspirations. This could limit meaningful deleveraging. But supply-chain constraints in aviation could slow fleet renewal.

Rating Metrics

FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



Source: S&P Global Ratings.

All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.